USAID STRATEGIC ECONOMIC RESEARCH AND ANALYSIS – ZIMBABWE (SERA) PROGRAM

REMUNERATION STRUCTURE AND LABOUR COSTS IN ZIMBABWE: AN ANALYSIS OF FLEXIBILITY, COMPETITIVENESS AND EQUITY

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List of Acronyms

AfDB	African Development Bank
CBAs	Collective Bargaining Agreements
CSC	Civil Service Commission
CZI	Confederation of Zimbabwe Industries
EPL	Employment Protection Legislation
ESAP	Economic Structural Adjustment Programme
GDP	Gross Domestic Product
HRMIS	Human Resources Management Information System
HSB	Health Service Board
HSBNP	Health Service Board Negotiation Panel
ILO	International Labour Organisation
IMF	International Monetary Fund
KIPPRA	Kenya Institute for Public Policy Research and Analysis
LEDRIZ	Labour and Economic Development Research Institute of Zimbabwe
MOFED	Ministry of Finance and Economic Development
NECs	National Employment Councils
NEDLAC	National Economic Development and Labour Council
NJNC	National Joint Negotiating Council
NPI	National Productivity Institute
OECD	Organisation for Economic Cooperation and Development
PDL	Poverty Datum Line
PFM	Public Finance Management
PSC	Public Service Commission
SADC	Southern African Development Community
SSA	Sub-Saharan Africa
SSB	Salary Services Bureau
SMP	Staff Monitored Programme
TFP	Total Factor Productivity
UNCTAD	United Nations Conference on Trade and Development
WB	World Bank
WEF	World Economic Forum
ZEPARU	Zimbabwe Economic Policy Analysis and Research Unit
ZimCode	Zimbabwe Corporate Governance Code
ZIMSTAT	Zimbabwe National Statistics Agency
ZIPAR	Zambia Institute for Policy Analysis and Research

Executive Summary

Discussions on the need to improve competitiveness in Zimbabwe have taken centre stage among policy makers, employers and academics. There is a general consensus that Zimbabwe suffers from a competitiveness problem. However, given that devaluation is not feasible because we are in multi-currency regime and the constrained fiscal position owing to the depressed economy it seems adjustment has to come through the labour market. This explains the calls for the liberalisation of the labour markets in a number of quarters. Some scholars and policymakers have argued that to close the 'competitiveness gap,' in particular with South Africa, requires a reduction in unit labour costs. This is often termed internal devaluation.

A key element in labour market analysis is the wage since wages play a central role by facilitating the allocation of labour into its most productive and efficient use. Wage developments have an impact on employment, prices, competitiveness and growth. An explanation often given as a cause of inadequate employment growth is that excessive labour costs are discouraging businesses from hiring more workers. It is argued that excessive labour costs arise when total compensation for workers is out of line with productivity. The excessive labour costs can also be as a result of rigidities in the legal and institutional environment which prevent compensation and productivity from matching.

On the other hand, wages play a fundamental role in the distribution of income and reduction of poverty. Falling labour earnings produce a host of problems: growing inequality, social exclusion, a rise in crime or even social and political unrest. The knowledge of wage developments is therefore important for successfully selecting, designing and implementing polices that are aimed at raising national income, achieving its equitable distribution, reducing poverty and enhancing competitiveness. The knowledge of forces behind wage developments, wage trends, or wage differences, for example, is pivotal in assessing which policies to target towards particular groups.

Analysis of theoretical and empirical literature on labour market policies in both developing and developed countries has shown that countries should avoid the two extremes of excessive regulations on the one hand and the other extreme of total disregard for labour conditions. Labour market policies that are very weak or programs that are non-existent can result in problems of poor information, unequal power, high income disparities, penalizing the poor and the middle class (World Bank, 2012). In contrast, excessively stringent regulations can compound market imperfections with institutional failures, and weigh on job creation and competitiveness (Dabla-Norris et al, 2015).

Recent debate on wages has focused around public-private sector wage differentials and the different institutions and wage setting processes within the public and private sectors that may give rise to these wage differentials (Hyder and Reilly, 2005; Mizala, et al., 2011; Ramoni-Perazzi and Bellante, 2007). Public-private sector wage differentials are likely to introduce wage distortions and disparities in public-private sector wage employment, while leading to low morale and output in the affected sector. While evidence from developed countries has revealed that public sector wages are on average higher than those in the private sector, evidence from developing countries is however scant.

This study analyses the wage structure and its determinants in both the public and private sectors and its impact on the economy over the period 2009-2015. The paper reviews the

public sector wage structure, public-private wage differentials and the institutions governing the determination of wages. The analysis shows that the public sector wage bill poses a serious threat to fiscal and macroeconomic stability as the country has one of the highest public employment costs in Sub-Saharan Africa (SSA). In particular, the public sector wage bill has far exceeded growth in real GDP. The high public sector wage bill has crowded out necessary public investment in capital projects and the social services. There is also a high public wage premium, with average public sector wages outstripping those prevailing in the private sector. There is also a huge differential between the wages of management and those of ordinary workers. The analysis has also shown that there has been a general decline in real average earnings for the whole economy. The analysis on unit labour costs has revealed labour costs are generally high in Zimbabwe relative to the rest of Africa and Asia.

Rules and regulations emanating from the various legislations governing the operations within the labour market are usually poorly implemented and most often ineffective. Regulations partly cover the entire market with the large informal segment being uncovered. In the covered segment, regulations are only effective to a limited extent, in terms of compliance, in the public sector; whereas, in the private sector the compliance level is low, due to poor monitoring and implementation. The existing system for public sector employees allows worker groups and organized professional associations to lobby for wage hikes in the absence of a formal process that accounts for cost of living growth and changes in the labour market in a haphazard manner. This has resulted in the public wage bill growth surpassing economic growth which is not sustainable.

Some of the policy implications and recommendations arising from the analysis include: instituting fiscal rules to put a cap on the public sector wage bill; use of biometric payroll registration of public sector employees to strengthen payroll administration; downsize the size of government; pass a Statutory Instrument (SI) limiting parastatal and municipal wages; resuscitating the National Productivity Institute (NPI) as a basis of coming up with national and sectoral scientific benchmarks to guide productivity bargaining; adopting an integrative collective bargaining process; alignment of the public service salary negotiations with the national budget process; restructuring the role of National Employment Councils (NECs), strengthening coordination among institutions dealing with wage determination in the Public Sector and labour legislation harmonisation; curbing informality by encouraging the transition to formality and adopting growth-friendly tax reforms.

1.0 Introduction

This study is an analysis of the wage structure and its determinants in both the public and private sectors and its impact on the economy. The paper reviews the public sector wage structure, public-private wage differentials and the institutions governing the determination of wages over the period 2009-2015. The study contains key policy recommendations on how to achieve a sustainable and equitable wage structure both in the public and private sectors in Zimbabwe. The study uses primary and secondary data to consider the following issues and areas of analysis:

- Review the public sector wage structure in the context of regional comparisons with a view to assessing its reasonableness and viability or otherwise. This review will take into account non-wage benefits being received by civil servants to assess whether they are based on fiscal sustainability and productivity norms.
- Review the wage structure in the parastatal sector with a view to assessing whether this is based on norms of financial viability of enterprises, productivity, considerations of equity, and parity with private sector wage and salary levels.
- Consider the wage structure in 2 or 3 key private industries such as manufacturing industry, mining and financial services, using data collection and sampling as considered necessary, to assess whether these are comparable in regional terms and affect the competitiveness and viability of these industries or not.
- Consider the manner in which wage negotiations are conducted and wage setting occurs, and assess whether the existing labour laws impede productivity based wage agreements or not.
- Assess the manner in which the Poverty Datum Line (PDL) is used in wage negotiations and wage setting in Zimbabwe, whether this conforms to regional or international best practice, and recommend the optimum manner in which wage negotiations should be conducted and the role of the PDL, if any.
- Briefly outline the laws, regulations and practices (based on precedent or otherwise) which are impeding labour market flexibility, the inability of businesses to adjust their workforces in an equitable manner when faced with recessionary conditions, and propose policy reform and administrative amendments, to enhance labour market flexibility.

There are growing discussions on the need to improve competitiveness in Zimbabwe in view of the fact that the country suffers from a competitiveness problem. However, given the few options that the country has, for instance, devaluation is not feasible because we are in multi-currency regime. This is exacerbated by the constrained fiscal position owing to the depressed economy. A feasible option often cited is that of adjustment through the labour market through internal devaluation. This explains the calls for the liberalisation of the labour markets in a number of quarters. Some scholars and policymakers have argued that to close the 'competitiveness gap,' in particular with South Africa, requires a reduction in unit labour costs.

A key variable in labour market analysis is the wage. Wages play a central role in that they facilitate the allocation of labour inputs to their most productive and efficient uses. Wage developments can have an impact on employment, prices and competitiveness. An explanation often given as a cause of inadequate employment growth is that excessive labour costs are discouraging businesses from hiring more workers. In simple terms, excessive labour costs would result when total compensation for workers is out of line with productivity. Excessive labour costs can also arise when rigidities in the legal and institutional environment prevent compensation and productivity from matching.

Wages also play a fundamental developmental role in the distribution of income and reduction of poverty. Falling labour earnings spawn a host of problems: growing inequality, social exclusion, a rise in crime or even social and political unrest. The benefits of increased labour earnings include: higher levels of economic growth, poverty reduction, and greater equity. The central role of wages makes them an important policy tool. The knowledge of wage developments is important for successfully selecting, designing and implementing polices that are aimed at raising national income, achieving its equitable distribution and reducing poverty. The knowledge of forces behind wage developments, wage trends, or wage differences, for example, is pivotal in assessing which policies to target towards particular groups.

Recent debate on wages has focused around public-private sector wage differentials. The different institutions and wage setting processes within the public and private sectors may give rise to these wage differentials (Hyder and Reilly, 2005; Mizala, *et al*., 2011; Ramoni-Perazzi and Bellante, 2007). Public-private sector wage differentials are likely to introduce wage distortions and disparities in public-private sector wage employment, while leading to low morale and output in the affected sector. While evidence from developed countries has revealed that public sector wages are on average higher than those in the private sector, evidence from developing countries is however scant.

This study analyses developments in the wage system in Zimbabwe in both the public and private sectors and institutions governing wage determination. The paper is organised as follows. Following this introduction, we review the current macroeconomic context (section 2.0). This is followed by an overview of the labour market (section 3.0). The next section (4.0) presents the literature relating to labour market institutions and labour market outcomes. Section 5.0 reviews the institutional and legal framework governing wage determination. Section 6.0 is an overview of the PDL in the wage setting processes. Section 7.0 is an analysis of the public sector wage bill and its implications. Section 8.0 investigates the public/private wage structures and differentials. Section 9.0 examines productivity, unit labour costs and competitiveness. The conclusion and policy recommendations are provided in Sections 10.0 and 11.0 respectively.

2.0 Current Macroeconomic Context

The economic rebound recorded during the period 2009-2012 has moderated with growth declining from 11.9 per cent in 2011 to 4.5 per cent in 2013 and 2.7 per cent in 2015. This economic slowdown can be attributed to a number of factors which include: high cost of doing business, fiscal revenue underperformance associated with declining commodity prices, policy uncertainty and inconsistency, poor infrastructure and institutional quality among others. The economy is in debt distress with an unsustainably high external debt which is estimated at US$8.4 billion as at December 2015.

Table 1 below shows the performance of selected macroeconomic indicators over the period 2009-2015. While inflation remains low and stable, the fiscal and external positions remain unsustainable. The budget balance deteriorated from a surplus of 1.8 per cent of GDP in 2010 to a deficit of -0.6 per cent in 2012 and -1.6 per cent in 2015. The current account deficit on the other hand deteriorated from a deficit of -14 per cent in 2009 to -21.1 per cent in 2010 and -30.8 per cent in 2011 before slightly improving to -21.4 per cent in 2015. The external debt as a percentage of GDP improved from 73.6 per cent in 2009 to 66.7 per cent in 2012 and to 58.7 per cent in 2015.

Table 1: Selected Macroeconomic Indicators, 2009-2015

	2009	2010	2011	2012	2013	2014	2015
GDP % growth	6	11.4	11.9	10.6	4.5	3.1	2.7
GDP % per capita	4.2	9.4	9.7	8.2	2.2	1.5	-0.9
CPI year on year % Inflation	-7.9	3.1	3.3	3.9	1.6	-0.2	-2.0
Investment (% of GDP)	11.2	17.2	15.9	14.2	10.0	9.8	
Savings (% of GDP)	-9.3	-2.8	-14.3	-16.7	-16.9	-12.2	
Budget Balance (% of GDP)	0.7	1.8	0.3	-0.6	-2.1	-1.9	-1.6
Current Account (% of GDP)	-14	-21.1	-30.8	-21.2	-22	-23.2	-21.4
External Debt (% of GDP)	73.6	69.8	66.7	69.4	60.7	58.7	

Source: World Bank; AfDB (various)

Economic recovery has been underpinned by the primary and resource sectors (agriculture and mining) with the contribution of the manufacturing sector declining from 15.5 per cent in 2009 to 12.8 per cent in 2013 and 9.6 per cent in 2014 (see Table 2). The contribution of the mining sector to GDP rose from 8.1 per cent in 2009 to 10.4 per cent in 2013 and 15.2 per cent in 2014 while the contribution of the agriculture sector declined from 15.1 per cent in 2009 to 12.8 per cent in 2013 before improving to 14.8 per cent in 2014. The decline in the role of the manufacturing sector reflects the deindustrialisation and consequent informalisation that has been taking place. Between 2011 and 2014, 4,610 companies closed down, resulting in 55,443 jobs being lost (2015 Budget Statement). According to the Confederation of Zimbabwe Industries (CZI) various manufacturing sector surveys, capacity utilisation levels improved from 32.3 per cent in 2009 to 43.7 per cent in 2010 and 57.2 per cent in 2011 before declining to 44.9 per cent in 2012, 39.6 per cent in 2013, 37.1 per cent in 2014 and 34.4 per cent in 2015. Consequently, tax revenues remain largely subdued on account of the depressed economic activity evidenced by the continued deindustrialisation in the economy.

Table 2: Contribution to GDP by Sector

Sector	2008	2009	2011	2013	2014
Manufacturing	13.6	15.5	15.1	12.8	9.6
Agriculture	13.1	15.1	19.8	12.8	14.8
Mining	10.1	8.1	14.9	10.4	15.2

Source: AfDB (various reports)

Macroeconomic developments affect the labour market. In Zimbabwe as in many other countries the problem of high un-/under-employment is a function of unstable macroeconomic policy. This is because performance of the labour market is a function of aggregate demand. Investment and growth have generally been too weak to improve labour market conditions. Importantly, the pro-cyclical fiscal policy and high marginal propensity to consume have crowded resources away from capital formation thereby weakening the productive capacity in the economy and also lowering aggregate demand. This has been exacerbated by monetary policy sterility following the adoption of multiple currency regime.

In the neoclassical approach wages are treated as a cost item and it is expected that flexibility in the labour market (i.e. the elimination of regulations) should bring down unemployment. It is therefore, assumed that that the demand for labour is no different from the demand for other commodities and that when wages fall the demand for labour should rise. However, as well as being a cost item, the wage bill is an important determinant of the level of domestic demand in the goods market (overall economy). A decline in the purchasing power of workers' incomes results in a decline in aggregate demand, bringing output down and raising unemployment. For this reason, in order to solve the problem of un-/under-employment, it is imperative to consider the goods market rather than the labour market and in particular investment spending. A number of scholars have found that increasing investment is an important factor in reducing unemployment (Rowthorn 1995, Arestis et al. 2007, Akyüz 2006). This is because investment both acts to create income as an element of effective demand and also makes it possible to increase production capacity. The determinant of investment, then, becomes important.

However, expansionary macroeconomic policies aiming at full employment without regard to the wage-productivity nexus cannot provide for a sustainable improvement and may end up creating a fiscal crisis. For that reason upward adjustments in wages ought to be linked to corresponding improvements in productivity. This can be attained through equitable distribution of productivity gains to both labour and capital in a manner that will not reduce the share of wages in total income. In this case, domestic demand will increase in line with the increase in productivity, promoting additional employment and more investment (UNCTAD 2010, Palley 2007, 2011, Ghosh 2011).

3.0 Overview of the Labour Market

The structure of employment in most African countries is characterized by a relatively small share of private industrial employment, a dominance of agricultural employment, and widespread self-employment in informal, non-agricultural enterprises. In Zimbabwe the economy has undergone wrenching structural changes owing to deindustrialisation and the informalisation of the economy. Table 3 shows the share of employment by sector in Zimbabwe for the periods 2011 and 2014. The share of employment from the agricultural sector has steadily increased from 65.8 per cent in 2011 to 67.2 per cent in 2014. The mining sector contribution declined from 2 per cent in 2011 to 1.5 per cent in 2014. The manufacturing sector contribution also declined from 5 per cent in 2011 and 4 per cent in 2014.

Table 3: Employment by Sector

Sector	2011	2014
Agriculture, forestry and fishing	65.8	67.2
Mining and quarrying	2	1.5
Manufacturing	5	4
Electricity, gas, steam and air conditioning supply	0.2	0.1
Water supply; sewerage, waste management and remediation activities	0.1	0.1
Construction	1.9	1.6
Wholesale and retail trade; repair of motor vehicles and motorcycles	9.5	10.9
Transportation and storage	1.7	1.7
Accommodation and food service activities	0.6	0.5
Information and communication	0.3	0.4
Financial and insurance activities	0.4	0.3
Real estate activities	0.1	0.4
Professional, scientific and technical activities	0.4	0.4
Administrative and support service activities	1.6	0.9
Public administration and defence; compulsory social security	1.3	1.6
Education	3.1	2.9
Human health and social work activities	1.2	0.8
Arts, entertainment and recreation	0.4	0.5
Other service activities	2.9	1.6
Activities of households as employers	1.5	2.6
Activities of extraterritorial organisations and bodies	0.1	0.0
Not Stated	0.1	0.0
Total Per cent	100	100
Total Number	5,431,026	6,265,869

Source: 2011 and 2014 Labour Force Survey, ZIMSTAT

The country faces a serious problem of under-employment. Under-employment basically means that the country has abundant labour which is not being productively utilised. The shrinking of the formal economy through deindustrialisation has resulted in a boom in the non-formal economy through informalisation with the share of informal employment to total employment rising from 84.2 per cent in 2011 to 94.5 per cent in 2014. The 2014 Labour Force has revealed that 81 per cent of the working age population is employed. The national employment to population ratio stood at 81 per cent. Ninety-four per cent of the currently employed persons 15 years and above were informally employed. Ninety-eight per cent of the currently employed youth aged 15 - 24 years and 96 per cent of currently employed youth aged 15 - 34 years were in informal employment.

It has been shown that informality discourages investment and weakens the overall competitiveness of the economy, because a number of informal enterprises are stuck in a low productivity trap (Palmade and Anayiotos, 2005). It is argued that being outside the regulatory framework implies informal enterprises can afford to be less productive than their competitors in the formal sector. It also implies that they are locked out of markets for finance, technology, and other resources that would enable them to close the gap. It has also been shown in literature that informal firms do not always "grow up" and join the formal sector. In many cases especially in developing countries they can remain stuck in an informality trap, excluded from markets for finance and forced to evade taxes and other regulations to compete with their more productive formal competitors. Therefore, in order to sustainably address the issue of informality requires strong incentives for compliance.

Table 4 shows the unemployment rates for the periods 2004, 2011 and 2014.

Table 4: Unemployment Rates (2004, 2011 and 2014)

Unemployment rate	2004	2011	2014
Unemployment rate 15+ years (broad)	9.3	10.7	11.3
Urban unemployment rate 15+ years (broad)	23	26.1	29.5
Rural unemployment rate 15+ years (broad)	2	3.4	2.6

Source: 2004, 2011, 2014 Labour Force Surveys, ZIMSTAT

The broad definition of the unemployed refers to the population age 15 years and above which during the seven day reference period did not work and had no job or business to go back to but were available for work. Table 4 shows that the unemployment rate has increased from 9.3 per cent in 2004 to 10.7 per cent in 2011 and 11.3 per cent in 2014. Unemployment is more pronounced in the urban areas than in the rural areas. The urban unemployment rate increased from 23 per cent in 2004 to 26.1 per cent in 2011 and 29.5 per cent in 2014. Rural unemployment on the other hand rose from 2 per cent in 2004 to 3.4 per cent in 2011 before declining to 2.6 per cent in 2014.

4.0 Labour Market Institutions and Labour Market Outcomes: A Review of Literature

Labour market institutions are important for the efficient functioning of labour markets. As Blanchard (2002), notes that "it is generally agreed that 'the labour market will not function well without proper institutions,' that is, without an appropriate mix of regulations, taxes, and subsidies affecting the relation between workers and employers." This is in light of increasing recognition that imperfect information and bargaining power are inherent to labour markets (Barr, 1998; Agell, 1999; Gregg and Manning, 1997). A key reason is due to market failure which does not give room for optimal resource allocation and ultimately affects market outcomes. Hence, institutions are needed to not only ensure optimality, but also protect workers. There is however, no consensus on the impact of labour market institutions on labour market outcomes for both developed and developing countries.

Theoretical literature on the impact of labour market institutions on labour market outcomes can be divided into the neoclassical view and the socio-economic approach. The neoclassical approach adopts a mechanical analysis of the labour market, where analytical, more quantitative and advanced econometric techniques are employed (see Fallon and Very, 1998). The socio-economic approach on the other hand adopts more trans-disciplinary insights in the form of ideas, concepts, theories, and empirical data among others in explaining the nature of the labour market (Folawewo, 2015).

The neoclassical approach is based on the supposition that there is a link between wages and the demand and supply of labour. As the wage rate increases, demand for labour falls and supply of labour increases. Proponents of this approach advocate more flexible and efficient labour markets by removing institutions that distort the forces of demand and supply. They argue that any distortion of the market mechanism will impede growth and employment for a number of reasons: First, most institutional interventions create incentives for market participants to behave differently than they otherwise would. This distorts the labour market's efficiency through the transmission wrong market signals, thus compromising the predictability of wage levels and their linkages to marginal productivity. Such a scenario leads to inefficiency in the allocation of productive resources. Second, regulations such as minimum wages make adjustment of labour markets to different types of economic changes in a dynamic setting difficult. Finally, regulations that redistribute economic 'rents' from capital to labour (for instance, collective bargaining schemes, and expansionary fiscal programmes to fund public employment and so on.) reduce investors' profits. This consequently discourages investment and the prospects of economic growth (Cesar and Chong, 2003).

On the other hand, proponents of the socio-economic approach view labour markets differently from the neoclassical perspective. The main argument in this approach is that the labour market only exists because different sets of agents interact with different sets of social, economic, cultural, political, ideological and social-psychological factors, in different spatio-temporal locations (Fleetwood, 2008). These factors are crucial to the analysis of labour markets. As a result, labour market institutions are considered important determinants of the dynamics in the labour market. It is argued that labour market institutions can fulfil important redistributive roles, particularly to benefit the vulnerable categories of workers. In addition, provisions such as labour standards may create desirable pressures on the employers to focus on the enhancement of their labour productivity whether it is through training or technical innovations (Freeman, 1993). Ultimately, standards on mandated benefits may help to solve the moral hazard issues and all the workers will benefit (Summers, 1998).

According to Akerlof (1984), by reinforcing job security, employment protection legislation (EPL) may enhance productivity performance, as workers will be more willing to cooperate with employers in the development of the production process. By this, EPL can be expected to reduce labour turnover. Because EPL ensures long-term labour contract, it creates an incentive for employers to invest in the training and well-being of workers, thus, increasing human capital and labour productivity.

Several empirical studies have been carried out to investigate the link between institutional regulations and labour market outcomes in relation to the two theoretical stands. Empirical support for the mainstream view is relatively limited and not clear cut. For example, Scarpetta and Tressel (2004) find, in an econometric analysis based on data for 17 manufacturing industries in 18 OECD countries (1980-2000), that differences in labour market regulation *per se* do not (in a statistically significant manner) affect multifactor productivity growth (see also OECD 2002). Likewise, Bartelsman *et al.* (2003:5) conclude that the "effect of high hiring and firing costs (proxied by the strictness of employment protection legislation) on productivity and innovation is less clear cut, and largely depends on the institutional system in which firms operate and the type of technology used in the sector" (for a similar conclusion, see Bassanini and Ernst, 2002).

On the other hand, Besley and Burgess (2004) found that pro-worker regulations are associated with low investment, employment, productivity, output and high urban poverty in India. The study further revealed that this type of regulation facilitated the existence and growth of a very large informal sector. The findings of the study have been criticised on several grounds, for example, Bhattarcharjea (2007) opined that the use of state-level labour regulation might be inappropriate. In addition, it was argued that scoring of several individual measures was erroneous, and that combination of scores as in Besley and Burgess (2004) was not comparable across states. Petrin and Sivadasan (2006) studied the effect of EPL on Chilean manufacturing firms for the periods 1979-1996 using plant-level production data. Results of the study showed little evidence of a negative impact of EPL on labour demand; however, it found that EPL introduced economically and statistically significant costs to the economy. They argued that firing costs drove a wedge between the marginal revenue product and its marginal cost. The result showed a large and significant increase in both the mean and the variance of the within-firm gap between the marginal product of labour and wage, for both white and blue collar workers.

In a comprehensive cross country study, Botero *et al* (2003) investigated the economic effect of labour market regulations such as employment laws, industrial and collective bargaining laws and social security laws for 85 countries. They found that richer countries regulate labour less often that the poor ones, instead they provide more social securities. A study by Belot and Van Ours (2004) showed that EPL lowered unemployment rate. Tvrdon (2013) found two main institutional factors significantly influencing labour market performance and these are tax wedge on labour activities and active labour market polices. The study showed that higher tax has positive correlation with unemployment, but active labour market polices have the tendency to offset the negative effect of high taxation.

In conclusion, on the basis of evidence from both the theoretical and empirical review, it is clear that the literature is inconclusive on the impact of institutions and regulatory framework on labour market outcomes. Most of the studies pay more attention to employment effects, but less on productivity and wage or income effect. In addition, very few studies focus on Africa. More importantly, the outcome depends on whether the focus is on the short or long-term. There is consensus that labour market policies should avoid the extremes of excessive regulations on the one hand and the other extreme of disregard for labour conditions. Labour market rules that are very weak or programs that are non-existent can leave problems of poor information, unequal power, and inadequate risk management untreated, penalizing the poor and the middle class (World Bank, 2012). In contrast, excessively stringent regulations can compound market imperfections with institutional failures, and weigh on job creation and efficiency (Dabla-Norris et al, 2015).

5.0 Institutions and Legal Framework for Wage Determination in Zimbabwe

The nature and structure of the labour market in a particular economy, such as the extent of formality and informality, do not only affect the functioning of such market but also the effectiveness of its institutional and regulatory framework (Chen, 2007; Sanchez-Puerta, 2010).

The Zimbabwean labour market has a very large informal sector, larger than the formal, which affects the efficacy of the labour market institutions. Hiring and firing as well as compensation of employees and other employer-employee relations within the formal segment are governed by official (legal) institutional rules and regulations; while activities within the informal segment of the market are outside of the coverage of official rules and regulations. Consequently, the existing labour market institutions and regulations reviewed in this paper are those related to the employment, compensation and other market issues within the formal segment which comprises of large privately owned firms and public organisations.

Zimbabwe is a member of the International Labour Organisation (ILO) and has also ratified a number of ILO conventions. The institutional and regulatory framework existing in the country is largely in line with ILO and fall within international standards; however their functioning is often below the acceptable international benchmarks. There are differences in terms of employment and wage determination processes between the public sector, parastatals and the private sector. Wage determination in the public sector differs from standard bargaining in the private sector. In the public sector wage determination is often a non-market process which is a prerogative of the government while in the private sector wages are determined by a process of collective bargaining. Public servants are grouped into associations and government consults with these associations, without necessarily being bound by the outcomes.

The Labour Act provides room for negotiation between employers and employees on conditions of services as the country does not have minimum wage legislation. Section 12C of the Labour Amendment Act, 2015 sets a minimum retrenchment package of two weeks' pay for every year served. In South Africa the minimum retrenchment package is at least one week pay for every year served and in Zambia it is not less than two months' basic pay. However, an area of contention between the employers and employees is section 12 of the Labour Amendment Act which states that where an employee is to be disciplined for misconduct the employer is obliged to terminate that employee's contract on notice and accordingly compensate the employee in spite of the fact that the employee is found guilty of the misconduct. The practice in most countries is that an employer has the right to discipline an employee found guilty of any misconduct including dismissal without the payment of a retrenchment package. This effectively means that retrenchment is the only lawful way of terminating an employment relationship. Section 3 of the Labour Amendment Act allows the employer to apply for exemption if he cannot afford to pay the minimum package. However, if there is no response from the retrenchment board within 14 days then the application is deemed successful.

5.1 Key Institutions for Wage Determination in the Public Sector

The following key institutions are involved in the wage determination process in the public sector.

5.1.1 Civil Service Commission (CSC)

The Civil Service Commission (CSC) administers the civil service sector. It was formerly called the Public Service Commission (PSC) prior to the new Constitution in 2013. According to Section 203 of the Constitution, members of the CSC are appointed by the President. Section 203 details the functions of the CSC as follows:

- To appoint qualified and competent persons to hold posts in the civil service;
- To fix and regulate conditions of service including salaries, allowances and other benefits;
- To exercise control and disciplinary powers over members of the civil service;
- To investigate grievances and to remedy the grievances of members;
- To implement measures to ensure effective and efficient performance within and the general well-being of the civil service;
- To ensure that members of the civil service carry out their duties efficiently and impartially;
- To advise the President and the Minister on any matter relating to the civil service;
- To promote throughout the civil service the values and principles set out in the Constitution;
- To exercise any other function that is conferred or imposed on the commission by the Constitution or an Act of Parliament.

5.1.2 Salary Services Bureau (SSB)

The Salary Services Bureau (SSB) is an agency of the Civil Service Commission. It is responsible for maintaining the establishment register, hiring against the established positions, implementing the terms of the employment contract, and maintaining the Human Resources Management Information System (HRMIS). Administratively, the SSB reports to the Civil Service Commission.

5.1.3 The Apex Council

The Apex Council is a coalition of a number of civil service staff associations whose main functions include:

- To bring all civil servants under one umbrella as one family employed by the Civil Service Commission (CSC);
- To discuss issues of conditions of service and their welfare with the employer;

- To lobby for better working conditions particularly salary increments paid in line with the Poverty datum line for the least paid worker as well as other benefits;
- To speak as one voice through their representatives in the National Joint Negotiating Council (NJNC);
- To recommend action to force the employer (government through CSC) to accede to their demands;
- To establish synergies, strategic alliances with industry and commerce and other regional and international civil service unions (associations).

5.1.4 The National Joint Negotiating Council (NJNC)

This Council consists of members drawn from the Apex Council and from Ministries and Government Departments. The Ministries and Government departments include:

- CSC (Chair of Government Team);
- Salaries Services Bureau;
- Ministry of Public Service, Labour and Social Welfare;
- Ministry of Finance and Economic Development;
- Ministry of Health and Child Welfare;
- Ministry of Higher and Tertiary Education;
- Ministry of Primary and Secondary Education.

The role of the NJNC is to represent the Apex Council members and the representatives from the Ministries and Departments, review and negotiate salaries, allowances and conditions of service in the Public Service. Once an agreement is reached, the NJNC submits to the Minister of Public Service, Labour and Social Welfare for his/her considerations.

5.1.5 The Health Service Board (HSB)

The Board serves government workers in the health sector. It is governed by the Health Services Act. The Chair of the NJNC currently chairs HSB. The Board works in consultation with the Minister of Health and its functions include:

- Appointing persons to offices, posts and grades in the Health Service;
- Creating grades in the Health Service and fixing conditions of service for its members;
- Supervising and monitoring health policy planning and public health;
- Inquiring into, and dealing with, complaints made by members of the Health Service;
- Supervising, advising and monitoring the technical performance of hospital management boards and State-aided hospitals;
- Setting financial objectives and framework for hospital management boards and State-aided hospitals;
- Handling appeals in relation to disciplinary powers exercised by hospital management boards, over members of the Health Service;
- Assisting in resource mobilisation for the Health Service; and,
- Exercising any other functions that may be imposed or conferred upon the Board in terms of the Act or any other enactment.

The wages and conditions of services negotiations in the health sector are determined by the Health Service Board Negotiation Panel (HSBNP). This Panel also has a structure with representatives from the Government and workers associations, also known as Apex. The Apex is made up of the various professional associations in the health sector.

5.1.6 Ministry of Finance and Economic Development (MOFED)

The Ministry of Finance and Economic Planning (MOFED) budgets and manages the total wage bill (including pensions) as a part of the annual budget. MOFED is responsible for managing the fiscal sustainability and macroeconomic implications of the wage bill.

The following challenges exist within the institutional framework:

- There is lack of effective coordination among the key institutions being Ministry of Public Service Labour and Social Welfare, CSC, NJNC and the HSB;
- Divergence of views within the Apex Council leading to lack of clarity on common positions and divisions thereof;
- There is duplication of negotiating structures for the health sector and other public service workers, that is, HSBNP and NJNC, respectively;
- There is no proper collective bargaining for civil service employees as compared with the private sector. For example, the output of the NJNC goes to the Minister as a recommendation; and,
- There is no coordination between the timing for salary consultations and the Budget process, thereby leading to anomalies in salary and conditions of service determination and outcomes (World Bank, 2013 and Uzhenyu, 2015).

Overall, to address the institutional challenges, there is need to first harmonise the two negotiation structures HSBNP and NJNC on issues related to basic pay structure which includes basic salary, housing, transport and rural allowance, whilst the specifics related to each sector can be dealt with at sector level. This eliminates duplication of negotiations and assists in creating synergies among the public sector workers. In addition, this will save institutional costs related with planning and administering a negotiation process. Secondly, there is need to improve coordination of timing of salary consultations and the budget process by establishing and effectively implementing a framework that allows synergy between the timeframe for salary consultations and the national budget input process.

5.2 Legal Framework for Wage Determination in the Public Sector

5.2.1 The Constitution of Zimbabwe

The Constitution of Zimbabwe is the supreme law in Zimbabwe governing labour relations. Zimbabwe adopted a new Constitution on 22 May 2013 (Constitution of Zimbabwe Amendment (No. 20) Act, 2013). The new Constitution now provides for the right to strike except for members of the security services. Section 65 provides for labour rights as follows:

- Except for members of the security services, every person has the right to form and join trade unions and employee or employers' organisations of their choice, and to participate in the lawful activities of those unions and organisations.
- Except for members of the security services, every employee has the right to participate in collective job action, including the right to strike, sit in, and withdraw their labour

and to take other similar concerted action, but a law may restrict the exercise of this right in order to maintain essential services.

- Every employee is entitled to just, equitable and satisfactory conditions of work.

5.2.2 Public Sector Labour legislation

Zimbabwe's public sector labour legislation is fragmented. The Public Service Act Chapter 16:04 covers members who render direct services to government except the security services, the judiciary, Parliament and intelligence services. The Act establishes the Public Service Commission (now Civil Service Commission) which is the employer representative of Government. The Act provides for the recognition of employees' associations or organisations (s24). The Act provides for consultations with the recognised associations (s20).

The Health Services Act Chapter 15:16 covers (members) employees in the Health Sector. The Act establishes the Health Service Board and recognises the right of employees to form associations or organisation and engage in consultations with the Board if so recognised by the Minister. The Board in consultation with the Minister has power to fix conditions of service for the health service employees (s13). The right to strike is not recognised in terms of this Act or service regulations as the Health sector is classified as an essential service.

The Judicial Service Act Chapter 7:18 applies to members (employees) in the administration of justice. The Act establishes the Judicial Service Commission, responsible among others for fixing conditions of service for its members (s5). The Act recognises the employees' right to freedom of association (s13) and consultations with regard to conditions of service (s11). The Act does not recognise the right to strike nor prohibit strike action and employees can use their constitutional right to strike.

The Defence Act, Prison Service Act and the Police Act govern members of the defence forces, prison service and police service respectively. These members do not have the right to form trade unions or staff associations. The Conditions of service are imposed by the Defence Force Service Commission, Prison and Correctional Service Commission, Police Service Commission in consultation with the Minister responsible for Defence, Justice and Home Affairs respectively. Section 65 (2) (3) of the Constitution of Zimbabwe prohibit these groups from enjoying the right to freedom of association and to strike.

The main challenge is the fragmentation of the legal framework within the public sector. This challenge can be addressed by harmonising these Acts with the main Labour Act to ensure that all workers in Zimbabwe are governed by one Act. This Act should allow the establishment of two negotiating structures, that is, one negotiating structure in the public sector and one in the private sector.

5.3 Wage Determination Process in the Public Sector

According to Section 20 (1) of the Public Service Act, the Commission, in this case the CSC shall be engaged in regular consultations with recognized Public Service Associations with regards to the conditions of service. The Public Service Act states that:

Subject to this Act and the Constitution, conditions of service, applicable to members of the Public Service (with the exception of the Army, Police, Prisons and Central Intelligence Organisations which have separate arrangements) including their remuneration, benefits, leave of absence, hours of work and discipline, shall be determined by the Commission in consultation with the Minister (responsible for Public Service), provided that, to the extent that such conditions may result in an increase in expenditure chargeable on the Consolidated Revenue Fund the concurrence of the Minister responsible for Finance shall be obtained.

This clearly means that the role of the associations ends with consultation alone and they do not have the final say in terms of the final outcome of salaries and allowances. The final say on salaries, allowances and benefits, according to Section 203 (4) of the Constitution rests in the President. Section 203 (4) states that in fixing the salaries, allowances and other benefits of the civil service, the CSC must act with approval of the President given on the recommendation of the responsible Minister for Finance in consultation with the Minister responsible for the Public Service. Following the directive of the President, the CSC can then enter into any agreement with the employees.

The Government needs to align the Public Service Act with the Constitution and provide for collective bargaining for the respective civil service workers. The Ministry of Finance and Economic Development should strengthen its role in terms of timeous provision of yearly budget projections to parties involved in salary negotiations so that consultations are undertaken in a transparent manner, as opposed to the current scenario where negotiations and consultations are in most cases conducted in a vacuum.

The existing system allows worker groups and organized professional associations to lobby for wage hikes in the absence of a formal process that accounts for cost of living growth and changes in the labour market in a haphazard manner. This has resulted in the public wage bill growth outstripping growth in economic growth which is not sustainable. Government could consider introducing an annual inflation adjustment. Periodic pay reviews should also be introduced whereby the Civil Service Commission (CSC) and the worker groups would negotiate adjustments to the pay scales in accordance with specific budgetary guidelines from the government. This process would allow authorities to make needed adjustments to the pay scales to accommodate changes in labour market conditions.

5.4 Institutions for Wage Determination in the Private Sector

Wage determination in the formal private sector has been the outcome of the activities of three key players – labour, employers and government, all with divergent and at times antagonistic objectives. Unions want to maximise wages, employers seek to minimize costs, while the government has often been viewed with suspicion by both sides, as its position has always been unpredictable. When Zimbabwe gained independence, minimum wages were unilaterally set by government from 1982 until 1988. The minimum wage structure was based on a two-tier system (domestic and agriculture, and industry and commerce) and was announced at the Workers' Day Rally on 1 May every year. However, in 1989, government allowed National Employment Councils (NECs) to negotiate within the range 5-16 per cent and in 1990, the negotiations started at 10 per cent, with the 'sky' as the limit. With the adoption of Economic Structural Adjustment Programme (ESAP) in 1991, the collective bargaining arena was liberalized and NECs could negotiate any level of wage improvements according to what they had agreed on.

Collective bargaining in most sectors takes place at NEC level and in a few cases at company level through functional works councils. The negotiating committee carries out collective bargaining at NEC level and works councils at company level. NECs are a form of bipartite social dialogue platform at the industrial level. Section 57 of the Labour Act, states that the Minister of Public Service, Labour and Social Welfare may request any registered trade union and any registered employer's organisation to form an employment council and apply for registration (Madhuku, 2015). It comprises of equal representatives of employers drawn from a registered employers' organization or federation of employers' on one hand, and representatives of employees drawn from a registered trade union or federation of trade unions. The NECs play a critical role in Zimbabwe's industrial relations and social dialogue.

NECs are registered with the Registrar of Labour Relations in the Ministry of Public Service Labour and Social Welfare. By 2015 there were 45 registered NECs in Zimbabwe. The NECs receive their income through a statutory levy contributed by both employers and employees which is directly paid to the NEC. Some NECs also administer their own medical and pension schemes for their specific sector.

The major function of NECs is to negotiate, bargain and dialogue on labour market and welfare issues of a particular industry with a legal and registered Collective Bargaining Agreement (CBA) being the outcome (Nyamukapa, 2008). The CBA is a legally binding document, binding to all employers and employees falling within the scope of the industry, irrespective of whether the employers or employees belong to the respective trade union or employers' association.

Cross country evidence has shown that collective bargaining can help enterprises adapt to economic volatility and downturns through short-term adjustments and concessions on wages and other working conditions, while permitting a more expeditious alignment of wages with productivity gains when the economy recovers. In Germany for instance strong industry-wide collective bargaining underpinned by close cooperation between the employers and employees made the timing of wage increases contingent on economic recovery explaining the low number of job losses during the crisis, in spite of a sharp economic contraction. As a result of the strong employer-employee cooperation employers kept their long term commitments to core workers and in return trade unions and works councils agreed to make concessions in terms of pay and working conditions.

To enhance efficiency in the collective bargaining structure it is imperative to allow decentralized wage setting while keeping coordination to help the macroeconomic adjustment. A combination of national and firm-level bargaining helps to meet the twin objectives of achieving flexibility and coordination. Firm-level agreements can adjust wages to the specific conditions faced by firms. Industry-level agreements can set floors and, when needed, help the adjustment of wages and prices in response to major macroeconomic shocks.

The Wages and Salaries Advisory Board is chaired by the Director of Labour Administration in the Ministry of Public Service, Labour and Social Welfare. Its role is to make recommendations specifically for the domestic and unclassified sectors. As the name suggests, its role is purely advisory.

Whilst the institutional arrangements in the private sector are clear and sound, lately, it has been the CBA processes that have faced a number of challenges in relation to the legislation. These include:

- Registration of a CBA takes long, which results in an impasse in implementation of agreed sectoral wages;
- Ministerial interference with the bargaining process where the Minister can solely give a directive for the CBA not to be registered;
- Some employers sometimes deliberately ignore directives from the NECs. For example the Net One Court vs. Ministry of Labour and Public Services and NEC case where the High Court made a decision pronouncing that an employer is not compelled to belong to an employment council;
- Lack of trust among the employers and the employees;
- The economic impasse resulting in a number of deadlocks and reference of cases for arbitration whose process takes forever long;
- Limited scope of NECs to wage negotiations only. NECs should also focus on dealing with the state of the economy and sectors, human resource development, issues of productivity and competitiveness.

5.5 Legal Framework for Wage Determination in the Private Sector

The Labour Act (Chapter 28:01) governs collective bargaining for all workers in the private sector and state enterprises (parastatals). Wage setting and negotiations are included in the list of issues for negotiations. Section 74 (2) indicates that trade unions and employers and employers' organisation may negotiate CBAs on any conditions of employment which are of mutual interest to the parties. Section 74 (3) (a) makes a provision for negotiating rates of remuneration and minimum wages for the different grades and types of occupations. This means that the workers and the employers can negotiate and agree on any issue as long as it relates to conditions of employment.

Sections 80 (2) and 82 (1) (a) state that a CBA is considered legally binding when it first gets registered by the Registrar of Labour Relations and secondly when it is published by the Minister as a statutory instrument. However, there are some limitations related to the provisions in the Labour Act (Madhuku, 2015). These are:

- The workers and employers cannot agree on terms or standards that are lower than those provided in the Labour Act;
- The Minister has the power to direct the Registrar to refuse registering of a CBA. The Minister can direct the Registrar not to register the CBA until his/her concerns are addressed;
- Renewed negotiations should be undertaken within a period not exceeding 12 months;
- Collective bargaining on any issue does not necessarily mean an increase in wages as the agreement may end with an agreement to maintain the "status quo".

In addition, employees intending to go on strike must have a dispute of interest. The dispute must have been referred to conciliation and a certificate of no settlement must be issued by the conciliator (s93). Once the certificate is issued, employees must choose either to refer the dispute to arbitration or engage in a strike action provided they are not in an essential service. An essential service is described as 'any service the interruption of which endangers immediately the life, personal safety or health of the whole or any part of the public' and must have been declared so by the Minister in the government gazette. Employees must give 14 days' written notice to the employer and the employment council and the trade union in the industry if any.

Overall, rules and regulations emanating from the various legislations governing the operations within the labour market are usually poorly implemented and most often impotent. As noted earlier, regulations partly cover the entire market with the large informal segment being uncovered. In the covered segment, regulations are only effective to a limited extent, in terms of compliance, in the public sector; whereas, in the private sector the compliance level is low, due to poor monitoring and implementation. A noticeable practice across sectors in Zimbabwe is the phenomenon of contract employment, whereby firms are not engaging on permanent employment with remuneration that is below industry standards. In addition, contract workers lack access to benefits accruable to permanent and/or core workers. The overall effects of these have been lack of motivation for improved productivity among workers and widening of inequality gap in the country.

6.0 Analysis of the Poverty Datum Line (PDL) in Wage Setting

6.1 The Riddell Commission of Inquiry and Wage Setting and Negotiations

Following the attainment of independence in 1980, workers had high expectations that the new government would address the distortions in the labour market. As a result, there was a spate of strikes by workers and the government responded by promulgating the Minimum Wage Act in 1980 with the aim of promoting security of employment and raising the standards of living of workers (LEDRIZ, 2011). The employers however, responded by retrenching workers. In line with its policy of protecting workers, the government adopted an Employment Act which ordered stoppage of retrenchments and that no retrenchment would take place without the Minister's approval. Again, as a way of circumventing Government's move, employers responded by employing casuals.

Hence, in order to deal with the wider issues of incomes, prices and conditions of service, and addressing the inherited anomalies, the government established the Riddell Commission of Inquiry in 1980 under the chairmanship of Roger Riddell. On the minimum wages issue, the Commission recommended that the basis for determining minimum wages should be solely on the needs of the workers and their families and not on the place of work or the type of the work performed. Therefore, whether the person is a domestic or a factory worker, the criterion of need should determine minimum wages. In this light, the criterion of need was embedded in the concept of the PDL.

The PDL referred to that income required to satisfy the minimum needs of a family given the size and composition within a defined environment in a condition of basic physical health and social wellbeing. In the case of Zimbabwe, the PDL was based on an average family of six, a father, mother and four children. Based on the above, the Commission recommended targeted income paths for both urban and rural workers[1]. The Commission also worked on a set of 4 assumptions which included that:

[1] The PDL for urban areas was fixed at Z$128 (at December 1980 prices) and the minimum wage was US$85 in 1981. For commercial farms the PDL was pegged at US$77 (60 per cent of the urban PDL).

- Attaining PDL was based on the remarkable economic performance of the first one and a half years of independence;
- The Commission assumed a real rate of growth of 10 per cent which would enable a 40 per cent per annum increase in the living standards of the lowest paid sectors of the workforce;
- The PDL was based on a sustainable redistributive policy focusing on both reduction in internal inequalities and redirection of the productive focus of the economy;
- Wage targeting was based on:
    i. an inward looking development strategy with less focus of resolving balance of payments disequilibrium in the short term;
    ii. a land reform programme that would reduce rural urban migration and boost agriculture production and viability.

The Commission also recommended that by mid-1984 (three and a half years later), that the minimum wage would be 90 per cent of the PDL and the remaining 10 per cent would be a flexible element to permit rewarding human capital investment (LEDRIZ, 2011). It also stipulated that the top salaries be frozen (in real terms) until the minimum wage targets were achieved.

Unfortunately, the propositions by the Commission could not be actualised due to the poor performance of the economy as a result of a three year consecutive drought period of 1982-84 coupled with the global economic recession. All this hampered the success of Riddell's wage targeting. Consequently, the government retracted from the "target wage" path and based on the general findings and recommendations of the Riddell Commission adopted a sliding scale mechanism, whereby those at the bottom of the earnings structure received higher percentage increases, and vice versa.

Maximum ceilings beyond which no increase was granted were also fixed by government. From this period until 1988, minimum wages were unilaterally set by government, on a two-tier system (domestic and agriculture, and industry and commerce) and were announced at the Workers' Day rally on May 1 every year. In 1989, government allowed National Employment Boards and National Employment Councils (NECs) to negotiate within the range 5-16 per cent and in 1990, the negotiations started at 10 per cent, with the 'sky' as the limit (Kanyenze, 1993).

Overall, the assumptions and propositions by the Riddell Commission show that the use of the PDL solely to determine minimum wages does not work as other factors have to be taken into consideration, for example redistribution of wealth and productive resources and levels of economic growth. In order to achieve long term sustainability of wages both in the public and private sectors it is it is critical for the parties to look at all the factors that are relevant to negotiations. There are two sets of factors that allow an "integrative" approach to collective bargaining, namely external or push factors; and internal or permissive factors. It is however, the internal factors (the permissive factors – ability-to-pay variables) that should define the final outcome of collective-bargaining processes. This will help achieve sustainable outcomes that do not exacerbate unemployment.

7.0 Public Sector Wage Bill and its Implications

General government employment accounts for a significant share of the labour force. Trends and developments in public sector wages have an impact on the labour market, competitiveness, public finances and the overall economy. A good understanding of the interactions between government wages and the labour market is of importance in the current context where the country is consolidating its public finances through the implementation of a Staff Monitored Programme (SMP). High public wages may induce a shift of resources out of the private sector into the public sector. Furthermore, a high public wage premium may crowd out private sector employment, inflate labour cost conditions, and lead to competitiveness losses (see Alesina and Perotti, 1997; Alesina et al., 2002; Ardagna, 2004). In most countries, both developed and developing, the public sector wage premia is seen as a manifestation of rents accruing to unions and politicians concerned by electoral motives (Gelb et al., 1991; Holmlund, 1993; Agenor, 1995; Rodrik, 2000, Matschke, 2003). Only recently, the persistence of public sector wage premia has been rationalised on the basis of imperfect labour matching (justifying limited labour mobility between the private and the public sector) and unilateral wage posting in the government sector as opposed to bargaining in the private sector (e.g., Quadrini and Trigari, 2008; Gomes, 2010).

As shown in Table 5, total government revenue including grants as a percentage of GDP increased from 12.6 per cent in 2009 to 26.7 per cent in in 2015. Total government expenditure as a percentage of GDP increased from 12.1 per cent in 2009 to 28.3 per cent in 2015. Total recurrent spending was 9.9 per cent of GDP in 2009 and 25.8 per cent in 2015. The public wage bill as a percentage of GDP was 6.4 per cent in 2009 and 21.5 per cent in 2015. The wage bill as a percentage of GDP ratio provides a measure of the share of the total measured domestic output that goes to covering the cost of engaging public service employees. Central government employment costs as a percentage of total expenditures was 51.5 per cent in 2009 and 64.5 per cent in 2014 (Table 6). The employment costs as a percentage of total expenditure ratio provides an indication of the burden of engaging public service employees poses to the budget and ultimately to taxpayers.

Table 5: Analysis of Government Revenues and Expenditures in Zimbabwe

Zimbabwe	2009	2010	2011	2012	2013	2014	2015
Revenues and Grants (% of GDP)	12.6	27.1	29.5	28.2	27.7	26.5	26.7
Total Government Expenditure (% of GDP)	12.1	24.6	29.2	29.5	30.2	28.4	28.3
Recurrent Expenditure (% of GDP)	9.9	17.6	24.6	26.7	26.6	25.8	25.8
Capital Expenditure (% of GDP)	0.6	4.6	3.5	2.9	3.6	2.6	2.4
Public Wage Bill (% of GDP)	6.4	9.7	15.1	20.2	20.5	21.4	21.5
Growth in Public Wage Bill (%)	-	68.8	75.2	9	32.8	16.5	
Average Employee Compensation (annual)	3,338	4,177	5,227	6,388	7,091	7,044	
Real GDP Growth rate (%)	6	11.4	11.9	10.6	4.5	3.1	

Source: ZIMSTAT (various); AfDB Zimbabwe Economic Outlook reports (various)

Table 5 also shows that growth in the public wage bill in Zimbabwe has far outstripped growth in real GDP and this is not sustainable. For instance, in 2014, the growth in the public wage bill was 16.5 per cent compared to real GDP growth rate of 3.1 per cent for the same year.

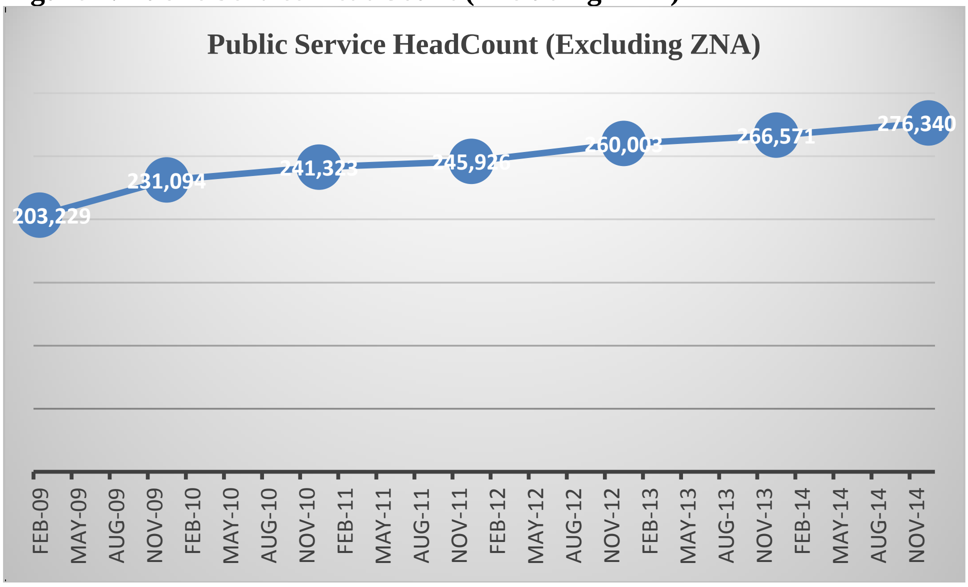
Table 6: Analysis of Government Expenditure in Zimbabwe (2009-2014)

	2009	2010	2011	2012	2013	2014
Recurrent Expenditure (% of Total Expenditure)	81.5	71.6	84.1	86.8	86.7	89.1
Capital Expenditure (% of Total Expenditure)	4.6	18.5	11.9	8.2	9.4	8.8
Employment Costs (% of Total Expenditure)	51.5	42.3	51.9	58.3	56.9	64.5

Source: Calculations from ZIMSTAT data.

Figure 1 below shows the public service headcount over the period February 2009 to December 2014. Public service employment increased by 36 percent from 203,229 in February 2009 to 276,340 in December 2014. The implication has been an increase in total employment costs as a percentage of total expenditure from 51.5 percent in 2009 to 64.5 percent in 2014 as shown in Table 6.

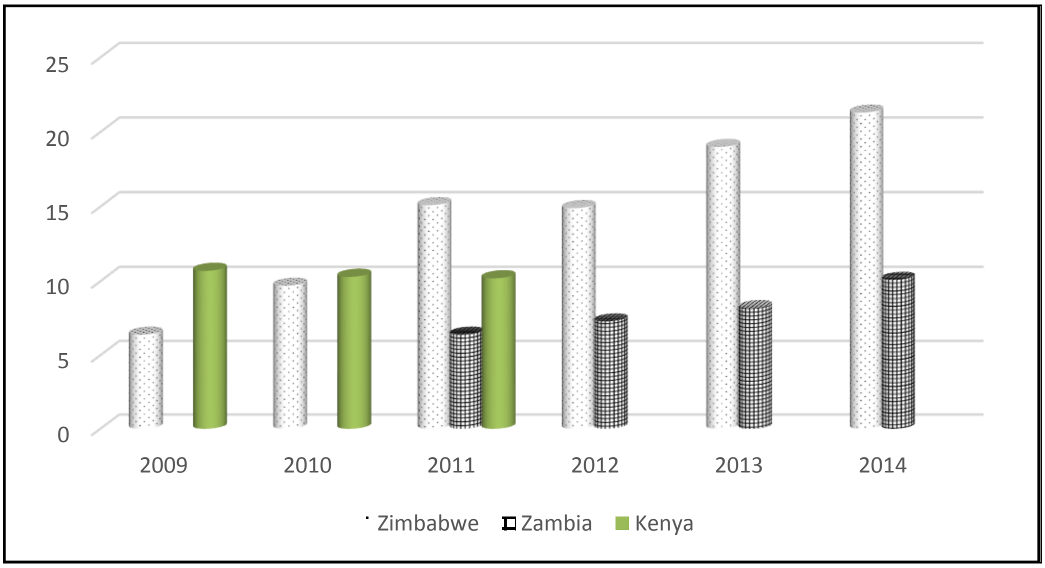
Figure 1: Public Service HeadCount (Excluding ZNA)



Source: 2016 National Budget Statement

Figure 2 shows an analysis of public wage bill in Zimbabwe, Zambia and Kenya.

Figure 2: Analysis of Public Wage Bill (Zimbabwe, Zambia and Kenya)

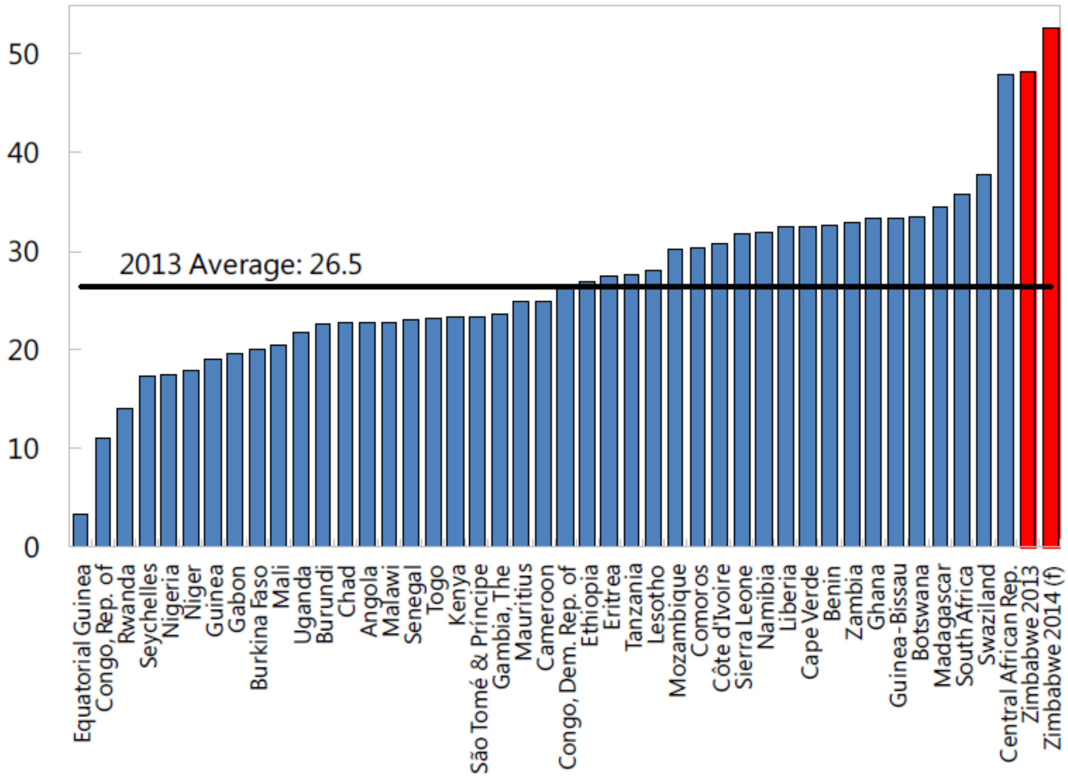


Source: ZIMSTAT (various); *ZIPAR (2016); **KIPPRA (2013)

As indicated in Figure 2, a public wage bill of 21.4 per cent of GDP in 2014 in Zimbabwe is higher than for some comparator countries. For instance, Zambia has a public wage bill of 10.1 per cent of GDP in 2014 while in Kenya it is 10.2 per cent of GDP as at 2011. An international comparison shows that Malaysia (5 per cent), Egypt (7.1 per cent) and Mauritius (5 per cent) have wage bill to GDP ratios below 10 per cent (IMF database, 2010). Clearly therefore, the public sector wage bill is now compromising fiscal and debt sustainability, and jeopardizing growth by generating excessive deficits and crowding out growth-enhancing public investments. There is an urgent need to stimulate economic growth and similarly reduce the wage bill. In the short to medium term the government should implement a wage policy that is fiscally sustainable.

Compared to Sub-Saharan African countries Zimbabwe has one of the highest public employment costs to total government expenditure ratios. Zimbabwe in 2013 had the highest wage bill as a share of government expenditures amongst its peers, at 56.9 per cent. The average wage bill to government expenditure ratio in the region is 26.5 per cent. The comparative figures for the selected countries of the region are presented in Figure 3.

Figure 3: Sub-Saharan Africa: Civil Servant Wages in 2013 (% of government expenditures)



Source: IMF (2014)

It is noteworthy that a significant number of senior public servants have access to hidden allowances (e.g. petrol, travel allowances) and in-kind benefits (e.g. vehicles) on top of their regular pay, drawn from other budget line items. Existing figures therefore are likely to understate the actual public service wage bill. However, reducing the public sector wage bill is regarded as one of the most difficult austerity measures for governments to undertake (Shepherd 2003; Nooruddin and Vreeland 2010). It has been argued that expenditure on public sector employment provides a useful political role. It can help to assure political stability by providing work to educated people in urban areas and is a valuable source of patronage. Public sector jobs also serve as an important social insurance mechanism, particularly in small open economies vulnerable to shocks as they constitute a large share of non-agricultural employees in most developing countries (Rodrik 2000). Public sector jobs are also a source of patronage used to buy the support of vital constituencies (Shepherd 2003; Nooruddin and Rudra 2009; Nooruddin and Vreeland 2010). Given these political dynamics, it is unsurprising that governments try to protect spending on wages and salaries, even when they face heavy debt burdens (Mahdavi, 2004).

A civil service audit carried out between February and April 2015 with a view of establishing legitimately employed personnel, and weed out ‘ghost workers’ from the civil service payroll has made recommendations for reforms to meet government’s target of reducing the wage bill from 80 percent to under 40 percent of revenue. This is however not enough as a physical head count of civil servants is open to manipulation and fraud. The government should make use of modern identification technologies which captures biometric data to improve payroll administration and weed out ‘ghost employees.’

8.0 Private/Public Wage Structures and Differentials

Public service compensation consists of monetary benefits (basic pay and allowances) and non-monetary benefits (in-kind benefits, job security, status, etc.). Beyond pay, public servants may enjoy other employment rewards. Figure 4 provides an overview of the total reward matrix.

Figure 4: Elements of total compensation in the public sector

		Contractually-provided		Non-contractual/ intangible
		Monetary	**In-kind**	
Current rewards	**Base rewards**	1. Base wage/salary.	2. Government contributions to pension and medical schemes.	3. Job security, prestige, social privileges
	Allowances	4. Salary supplements, applicable employment allowances.	5. Transportation, housing, meals, travel	6. Trips abroad, training
Future expectations		7. Pension	8. Housing, land, etc.	9.Reputation,re-employment after retirement

Source: World Bank (2012), Wage Bill and Pay Compression Summary Note

Following the inauguration of the Inclusive Government in February 2009, the Minister of Finance announced that all civil servants would receive an allowance of US$100 in hard currency effective from end of February 2009. As a result of these measures, 'dormant' civil servants started returning to work such that hospitals that had closed re-opened. In an effort to improve working conditions, the Mid-Term Fiscal Review of July 2009 introduced a modest pay structure for civil servants, recognizing grades initially only across limited differentiated bands, effective from end of July 2009. As a consequence, the allowance was increased by 50 per cent, with the average baseline salary at US$150. A further 35 per cent salary adjustment was made in January 2010, raising the average basic baseline salary to US$204. Further adjustments were made in 2010, January and July 2011. On account of shrinking fiscal space, only the allowances (transport and housing) were reviewed in January 2012, with further adjustments being made in January 2014 (see Table 7).

Table 7 shows the breakdown of the total civil service package (basic salary, transport and housing allowances) for the period 2011 and 2012. Taking Grade B1 as an example, the allowances constitute 37.2 per cent of the total package in 2011, rising to 46.3 per cent after the January 2012 adjustments, and declining to 42 per cent in 2014. The compression ratio is defined as the ratio of the highest salary to the lowest on the government's main salary scale. It is a useful indicator of the adequacy of pay. The compression ratio has declined from 1.77 in 2011 to 1.72 in 2012 and 1.59 in 2014. In Kenya the compression ratio is about 20 (KIPPRA, 2013). Low ratios suggest that highly skilled workers are underpaid, while unskilled workers are overpaid. Low compression ratios provide strong incentives for corruption and hence are often associated with higher incidence of corruption (Abed and Gupta, 2002; Van Rijckeghem and Weder, 2001).

Table 7: Public Service Package

	Effective from July 2011				Effective from January 2012			
Grade	Basic	Transport	Housing	Total	Basic	Transport	Housing	Total
B1	159	44	50	253	159	63	74	296

C1	197	50	57	304	197	72	84	353
D1	230	66	65	361	230	95	94	419
E5	308	66	73	447	308	95	105	508
Compression Ratio (E5/B1)				1:1.77				1:1.72
	Effective from January 2014							
Grade	Basic	Transport	Housing	Total				
B1	218	66	91	375				
C1	243	76	104	423				
D1	284	100	116	500				
E5	365	100	131	596				
Compression Ratio (E5/B1)				1:1.59				

Source: National Joint Negotiating Council.

Domestic and foreign travel is used by government workers as an additional allowance to subsidize their welfare. Foreign travel expenses as at May 2015 were US$22.8 million against a target of US$5.6 million.

The size of the public sector and its effects on private labour markets has motivated a good deal of research on the determination of the sectoral (public/private) wage process for paid employees in developed countries. Many studies have indicated significant differences in the wage structure in both sectors, with conditional and unconditional rewards in the public sector often exceeding those in the private sector. Policy initiatives to contain the growth of public-sector wages have been motivated by wage differentials established in these studies.

The public-private wage differential is well documented for developed countries. Literature on developing countries is scant and the few studies have been inconclusive. Some studies (Hyder and Reilly, 2005; Skyt Nielsen and Rosholm, 2001; Terrell, 1993) suggest that public sector workers earn varying amounts of premium. Other studies (Bedi, 1998; Van der Gaag and Vijverberg, 1988) find that private workers enjoy a significant wage advantage over their public sector counterparts. Moreover, studies such as Al-Samarrai and Reilly (2005) conducted for Tanzania conclude that there is no significant statistical difference in the wage structures between the public and private sectors.

An analysis of country studies shows that, generally, the wage differentials have been in favour of the public sector. The highly qualified public sector workers tend to trade off substantial wage returns for security and other non-wage benefits. Thus, a comparison of the wages of public sector workers with those of the total private sector in Zimbabwe would lead to a conclusion that public sector workers earn substantial premia. As shown in Table 8 the public wage premium increased from 34.1 per cent in 2009 to 52.2 per cent in 2010 before progressively declining to 28.9 per cent in 2014.

Table 8: Average Monthly Earnings, Poverty Lines and Per Capita Income

	2009	2010	2011	2012	2013	2014
Private Wage	120	146	200	250	280	340
Public Wage	182	306	342	394	446	478
Municipal Wage	240	315	468	500	560	620
Parastatal Wage	280	346	415	478	535	600
NGOs Wage	420	466	500	544	638	735

Public Wage Premium (%)	34.1	52.3	41.5	36.5	37.2	28.9
Food Poverty Line (FPL)	136.9	145.07	148.56	167.64	159.62	157.49
PDL	453.38	476.37	485.75	543.3	503.81	505.99
Per Capita GDP (Annual in US$)	667	764	879	949	1005	1030
Private Wage/PDL (%)	26.5	30.6	41.2	46	55.6	67.2
Public Wage/PDL (%)	40.1	64.2	70.4	72.5	88.5	94.5
Municipal Wage/PDL (%)	52.9	66.1	96.3	92	111.2	122.5
Parastatal Wage/PDL (%)	61.8	72.6	85.4	88	106.2	118.6
NGOs Wage/PDL (%)	92.6	97.8	102.9	100.1	126.6	145.3

Source: calculations from ZIMSTAT data. Wages are in US$.

Table 9 reports the trend in real average earnings index for the period 2009 to 2014. The earnings data includes all costs related to employing workers beyond the wage. The average real earnings index for the whole economy has markedly declined from 159 in 2010 to 95.7 in 2014. This seems to confirm that real average earnings in Zimbabwe have been more downwardly flexible than previously thought and have been surprisingly responsive to unemployment rates and the weakening economy in general. The fall in real average earnings also reflects a weakening economy.

Table 9: Real Average Earnings Index (2009-2014)

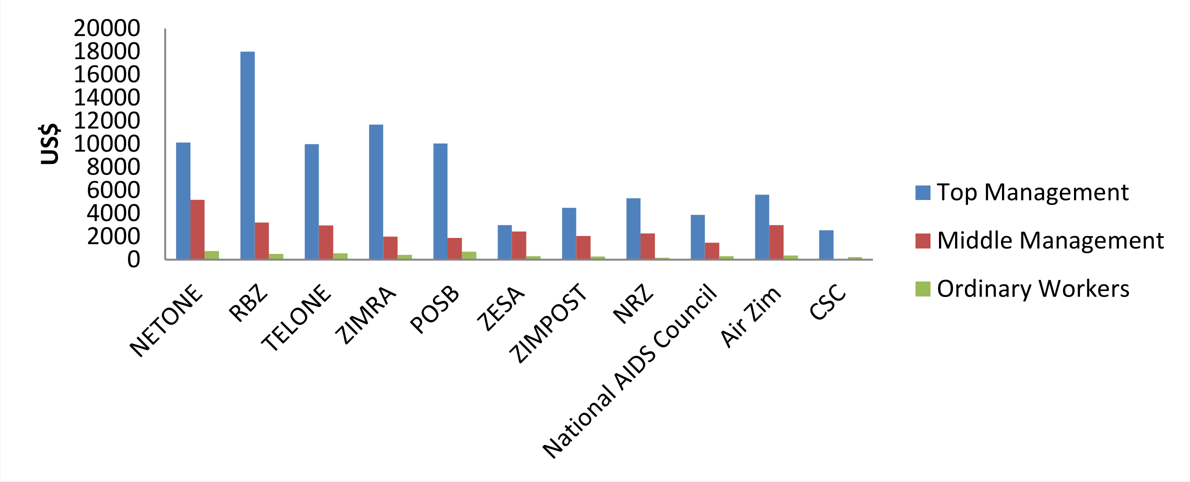
Sector	2009	2010	2011	2012	2013	2014
Agriculture	100	106.7	96.7	95.3	113.3	126.7
Mining	100	270.8	112.5	114.8	107.8	114.5
Manufacturing	100	130.7	108.3	112	104.9	105.3
Electricity & Water	100	98.7	171.7	107.3	121.8	98.9
Construction	100	182.5	98.6	128.1	131	66.9
Financial Services & Real Estate	100	223.2	111.1	124.7	131.7	78.5
Distribution	100	211.3	106.6	109.7	95.1	94
Transport & Communication	100	149.5	119.2	147	95.2	104.3
Public Administration	100	143.6	171.4	106	123.5	98.2
Education	100	142.6	157	98.9	100	100
Health	100	414.3	146	185.9	105.1	77.5
Private Domestic Services	100	435.8	12	135.2	105.9	104.8
Other	100	53.2	139	123.8	139.9	76.5
Total	100	159	119.7	113	111.5	95.7

Source: ZIMSTAT

8.1 Wage differentials between Management and Ordinary Workers

There are huge income disparities between top management, middle management and ordinary workers within most enterprises especially parastatals. This is shown in Figure 5. While there is no credible data on Zimbabwe, data from Statistics South Africa's Labour Market Dynamics show that in 2010, the top 5 per cent earned almost 30 times more than the bottom 5 per cent of employees, and by 2014, this had increased to almost 50 times.

Figure 5: Basic Salaries (per month), selected parastatals



Sources: Published Newspaper Articles and Collective Bargaining Agreements (2014)

Since 2009 the income disparities between the highest and lowest paid have continued to widen. This reflects the different ways of determining the levels with collective bargaining at the lower echelons and entitlement-based contracts at the top.

The national average minimum wage in Zimbabwe is $263.68 and the national average inclusive of allowances is $336.42 as at 2015. About 64 per cent of the CBAs provide workers with an average of about $77.56 housing allowance per month while about 58 per cent of the CBAs provide workers with an average of about $43.15 as transport allowance per month. According to Statistics South Africa, Quarterly Employment Statistics (QES), the average monthly income for the formal non-agricultural sector was R16,470 (US$1,497.3) in November 2014. According to ILO Gobal Wage Report 2014/15 the monthly average wage in developed economies in 2013 was about US$ (PPP) 3,000 compared to an average wage in emerging and developing economies of about US$ (PPP) 1,000. The estimated world average monthly wage is about US$ (PPP) 1,600.

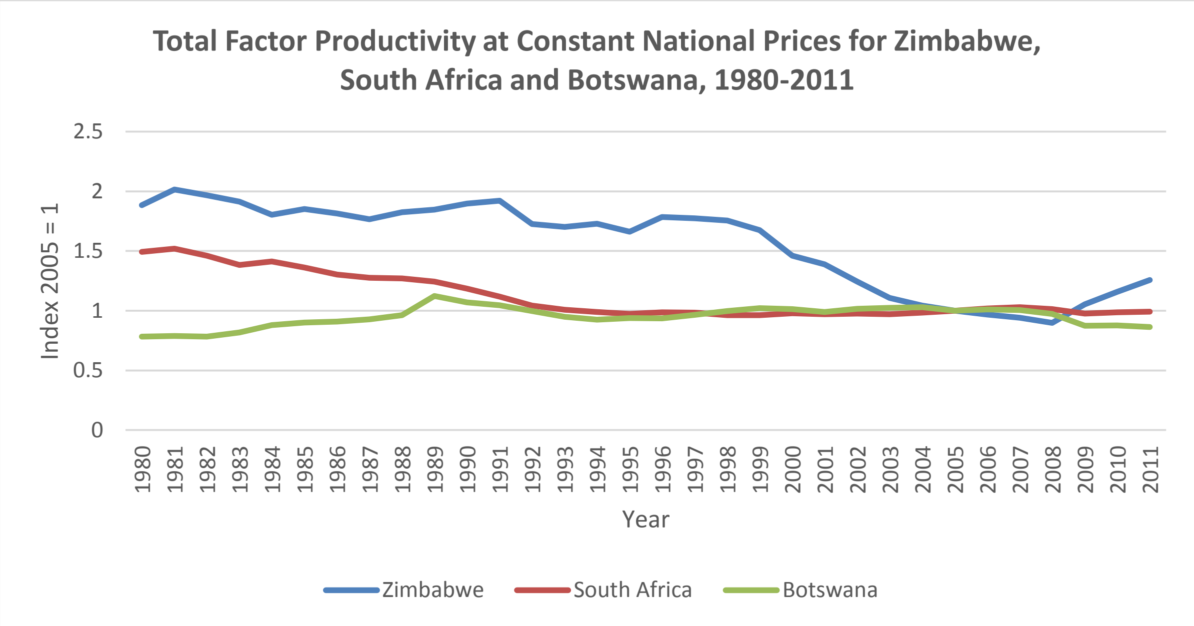
A study on the 'Cost Driver Analysis of the Zimbabwean Economy' by ZEPARU (2014) revealed that labour costs are higher in Zimbabwe than they are in Zambia, Botswana, and Mozambique. The country however has a labour cost advantage relative to South Africa. At an average of US$246.50 per month in Zimbabwe, the minimum wage in Botswana, Mozambique and Zambia stands roughly between 42 per cent and 53 per cent of the level in Zimbabwe. However, the Zimbabwean minimum wage for an entry level position is roughly 38 per cent of the South African levels, where the comparable minimum is US$646.40. Furthermore, the ZEPARU study showed that from 2009 to 2013, the minimum wage in Zimbabwe (in US dollar terms) increased from US$90 to the current US$246.50 level (representing a 173.84 per cent increase) which translates into an average annual growth of 28.6 per cent. On the other hand, the minimum wage levels in the rest of the region only increased by a far less per cent than in Zimbabwe: Zambia (19 per cent), South Africa (6.3 per cent), Mozambique (5.9 per cent) and Botswana (2 per cent) over the same period.

The government launched the Zimbabwe Corporate Governance Code (ZimCode) in April 2015 for both the private and state owned enterprises to enhance efficiency in their management and performance. ZimCode deals with some of the inadequacies of the corporate legal framework. Government is now in the process of drafting a Corporate Governance Bill to give effect to ZimCode. The Corporate Governance Bill will have a lot more focus on how boards are appointed, the qualifications of board members, and a much closer monitoring of the performance of the enterprises to make sure that they deliver on their mandated tasks.

9.0 Productivity, Unit Labour Costs and Competitiveness

Figure 6 shows the trends in total factor productivity (TFP) for Zimbabwe, South Africa and Botswana over the period 1980-2011. While TFP has markedly declined over the years from an index of about 2 in 1981 to a low of 0.97 in 2008 it has however been on a rebound from 2009. Zimbabwe has also fared better than both South Africa and Botswana for the greater part of the period.

Figure 6: Total Factor Productivity at Constant National Prices for Zimbabwe, South Africa and Botswana, 1980-2011



Source: Feenstra, Robert C., Robert Inklaar and Marcel P. Timmer (2015), 'The Next Generation of the Penn World Table'*American Economic Review*, 105(10), 3150-3182, available for download at www.ggdc.net/pwt

Notwithstanding the good performance in terms of TFP the country generally suffers from high unit labour costs. As shown in Tables 10 and 11 unit labour costs are generally high in Zimbabwe relative to the rest of Africa and Asia. According to 2015 CZI Manufacturing Sector survey the percentage of labour costs to direct costs is 22 per cent while total employee cost as a percentage of total input costs is 28 per cent. While wages and salaries constitute a significant proportion of the total expenditure in many organizations, a closer analysis of these organizations' balance sheets will reveal that it is actually directors' emoluments (and benefits) that are accounting for the lion's share of the total expenditure for salaries and wages.

Capital investment and technological innovation are the best and most sustainable ways to improve productivity. This should be coupled with an overall policy framework focused on increased public infrastructure investments, expanding support for private businesses, and a growing domestic market.

Table 10: Unit Labour Costs

	2012	2013	2014	Africa	East Asia	South Asia
Mining	0.24	0.29	0.33			
Manufacturing	0.28	0.35	0.38	0.33	0.28	0.37
Electricity and water	0.36	0.39	0.39			
Construction	0.36	0.48	0.35			
Finance, insurance & real estate	0.45	0.42	0.33			
Distribution, restaurants and hotels	0.32	0.29	0.27			
Transport & communications	0.2	0.25	0.23			

Source: Calculations from ZIMSTAT

This is particularly more pronounced and stark in parastatals. This calls for the rationalization of the wage structure.

Table 11: Evolution in Employment and Labour Costs for Selected Infrastructure Parastatals

Parastatal	**Number of Employees**		**Average labour cost (Labour cost / personnel)**		**Labour cost / revenues**	
	2009	2012	2009	2012	2009	2012
ZESA		5,623	$9,061	$23,767	11%	16%
ZINWA	2,429	2,494	$7,624	$9,824	42%	46%
NRZ	8,648	7,799	$5,069	$10,473	68%	79%
NetOne	288	373	$34,915	$61,927	10%	26%
TelOne	2,453	2,318	$11,000	$23,301	12%	39%

Source: Financial statements and complementary information provided by parastatals.

While government has issued a directive to limit wages of managers of parastatal and local authorities the situation on the ground shows that senior managers in these organizations continue to receive unsustainable wages and non-wage benefits that are not in line with the government directive. In many cases, the non-wage benefits exceed the basic salary[2].

The country scores very badly on the major business competitiveness indices. This is shown in Table 12.

Table 12: Competitiveness and Ease of Doing Business Rankings (2008-2015)

Year	World Economic Forum (WEF) Global Competitiveness Rankings	World Bank (WB) Ease of Doing Business Rankings
2008	129/131	154/183
2009	118/121	160/183
2010	132/134	156/183
2011	136/139	157/183
2012	132/142	170/183
2013	132/144	172/185
2014	131/148	170/189

[2] covers just the basic salary excluding all allowances

2015	124/144	171/189
2016	125/140	155/189

Source: World Bank Ease of Doing Business Reports (various); World Economic Forum Global Competitiveness Reports (various)

The World Bank's enterprise surveys (see Table 13) measure a firms' perceptions of the business environment. What firms report hinders them the most is not the regulatory environment, but competition from informal firms, high tax rates, limitations in infrastructure, access and cost of finance, and government behaviour (corruption). Labour regulations rank lowly relative to all other constraints according to firms. Quite interestingly the ranking of obstacles tends to be similar across the continent. More importantly, while it may be argued that labour unions may constitute a significant source of labour market rigidities in Zimbabwe, however evidence suggests that, as with the regulations on hiring, firing, and hours, this is unlikely to be a significant barrier to the expansion of decent employment. If for no other reason, this is because unions represent a small and diminishing portion of Zimbabwe's labour force. Union membership in the private formal sector is less than 20 per cent of total employment.

Table 13: Results from World Bank Enterprises Surveys

	Zimbabwe	Sub-Saharan Africa	All Countries
Capacity utilisation in manufacturing sector (%)	45.7	70.8	72.3
Per cent of firms competing against unregistered or informal firms	71.8	67.7	54.4
Per cent of firms identifying access to finance as a major constraint	63.7	40.8	28.6
Per cent of firms identifying practices of competitors in the informal sector as a major constraint	47	38.8	28.1
Per cent of firms identifying electricity as a major constraint	46.8	43.6	34
Per cent of firms identifying tax rates as a major constraint	41.3	37	31
Per cent of firms identifying corruption as a major constraint	32.6	43.4	35.2
Per cent of firms identifying business licensing and permits as a major constraint	12.9	17.6	13
Per cent of firms identifying transportation as a major constraint	10.1	28.3	20.1
Per cent of firms identifying labour regulations as a major constraint	9.6	11.6	11
Per cent of firms identifying tax administration as a major constraint	8.9	29.9	21.1
Per cent of firms identifying customs and trade regulations as a major constraint	7.1	26.1	17.7
Per cent of firms identifying the courts system as a major constraint	7	18.8	15.5
Per cent of firms identifying crime, theft and disorder as a major constraint	6.7	25.3	22
Per cent of firms identifying an inadequately educated workforce as a major constraint	5	23.2	23.7

Source: 2011 World Bank Enterprise Surveys

Table 14 shows the most binding constraints to doing business in Zimbabwe in 2014 and 2015. Access to finance and policy instability are the most binding constraints to doing business in Zimbabwe.

Table 13: Most Binding Factors to Doing Business in Zimbabwe

Factor	% of responses 2014	Factor	% of responses 2015
Access to financing	24.6	Access to financing	22.8
Policy Instability	19.7	Policy instability	21.2
Inadequate supply of infrastructure	15	Restrictive labour regulations	12.4
Inefficient government bureaucracy	11.9	Inadequate supply of infrastructure	12.3
Corruption	11.4	Inefficient government bureaucracy	11.5
Restrictive labour regulations	10.8	Corruption	11

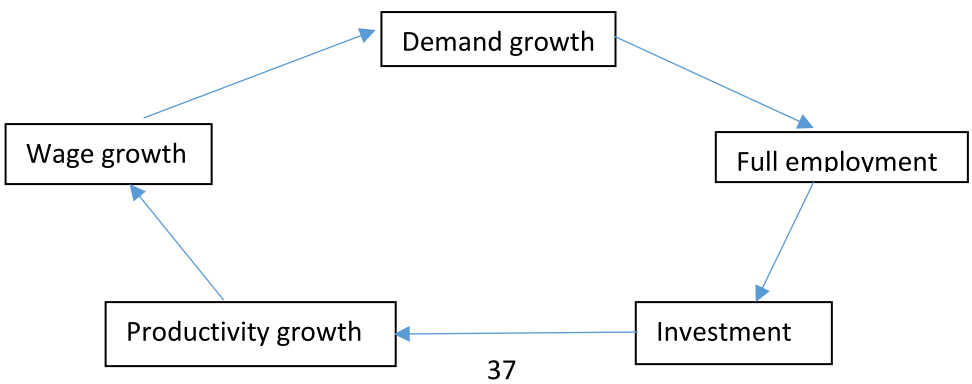
Source: WEF Global Competitiveness Report 2015/16

10.0 Summary and Conclusion

This paper reviews (i) the public sector wage structure; (ii) public-private wage differentials; and (iii) the institutional and legal framework governing the determination of wages. The analysis has shown that the public sector wage bill poses a serious threat to fiscal sustainability and macroeconomic stability as the country has one of the highest public employment costs in Sub-Saharan Africa (SSA). In particular the public sector wage bill has far outstripped growth in real GDP. The high public sector wage bill has crowded out necessary public investment in capital projects and the social services. There is a high public wage premium with average public sector wages eclipsing those prevailing in the private sector. There is also a huge differential between the wages of management and those of ordinary workers. The analysis has also shown that there has been a general decline in real average earnings for the whole economy.

Unit labour costs are generally high in Zimbabwe relative to the rest of Africa and Asia. We argue that the best and most sustainable way of reducing unit labour costs by firms should be by raising productivity. Capital accumulation and technological innovation are the best ways to improve productivity. Productivity growth should drive wage growth, which should fuel demand growth and transition the economy towards full employment. That provides an incentive for investment, which should further drive productivity growth (see Figure 7). Public and private capital accumulation becomes important ingredients to improve productivity and labour market conditions in the country. Arestis and Biefang-Frisancho Mariscal (2000) show that capital formation is an important variable in the determination of unemployment and wages.

Figure 7: The 1945-80 Virtuous circle growth model



In particular, public sector wages (including parastatals and local authorities) should be linked to levels of performance, competencies and productivity. This will require clear mechanisms for measuring performance index for the various grades of employment and sectors. The two dimensions of job evaluation and performance should form a basis for pay determination. The wage structure should contain basic pay, which reflects the value of the job; productivity-based pay (bonus), which acts as a variable payment to compensate for productivity (performance); and a seniority element to compensate for long service, loyalty and experience.

Institutions originating from the various legislations governing the operations within the labour market are usually poorly implemented and most often ineffective. Regulations partly cover the entire market with the large informal segment being uncovered. In the covered segment, regulations are only effective to a limited extent, in terms of compliance, in the public sector; whereas, in the private sector the compliance level is low, due to poor monitoring and implementation.

Improving labour market outcomes also entails dealing the high levels of informalisation. The government should reduce informal employment by lowering the cost of transitions to formality through the creation of an enabling policy and regulatory environment that reduces barriers to formalization, while protecting workers' rights and increasing the benefits of being formal by promoting a greater awareness of the advantages and protection that come with formalization (business development services for MSMEs, access to the market, productive resources, credit programmes, and training and promotional programmes to upgrade informal economy units).

Zimbabwe can learn from countries such as Colombia and Brazil that have successfully reduced the levels of informalisation significantly through well-coordinated policies. According to the ILO (2013), in Colombia, for instance, Act No. 1429 provides MSMEs with incentives to formalize their structures through tax reductions and to create new employment, particularly for vulnerable groups such as young workers under the age of 28. Measures to increase productivity include modernizing the institutional framework for MSMEs, improving their access to financial markets and providing assistance for technological development.

In 2010, the General Act on SMEs in Brazil created the legal concept of 'individual micro-entrepreneur' and simplified registration, with a single contribution giving access to social security, medical care and maternity leave. A certificate issued to formal individual micro-entrepreneurs facilitates their access to markets and credit. It is estimated that 3 million workers have been formalized in this way. In Chile, the 2006 SME Act constitutes an important step towards a more enabling environment for the formalization of MSEs and introduces a series of changes in the regulatory framework and in SME support services.

11.0 Policy Recommendations

A number of policy implications can be distilled from the analysis. These include:

Policy Area 1: Addressing the Public Wage Bill

11.1 Establish Fiscal Rules to Put a Ceiling on the Public Sector Wage Bill

Given the unsustainable public wage structure there is need to institute a cap on the public sector wage bill. The Public Finance Management (PFM) Act should be amended to ensure that the government pursues fiscal responsibility. In line with regional and international best practice government should:

- Allocate a minimum of 30 per cent of the Budget to development expenditure implying that recurrent expenditure (including the wage bill) should not exceed 70 per cent of the Budget;
- Ensure that expenditure on wages and benefits do not exceed 35 per cent of taxes and not more than 10 per cent of GDP.

This should be clearly specified as a rule in the Public Finance Management Act. Implementing a fiscal rule to determine the public sector wages also help to reduce the scope of government to use wages for electoral purposes.

11.2 Biometric Payroll Registration of Public Sector Workers and Pensioners

In 2015, the Civil Service Commission successfully completed the physical head count for all civil servants as part of the staff audit. This however is not enough as the process is open to manipulation and fraud. As a result, the government may not succeed in effectively dealing with the problem of ghost workers and removing them from the payroll system. What is needed is the use of modern identification technologies which captures biometric data. Therefore, as part of the process of cleaning the payroll database of the public sector workers and pensioners and improving the payroll administration the government through the Civil Service Commission should undertake a process of biometric payroll registration of all public sector workers and pensioners.

This has been successfully implemented in a number of African countries such as Ghana, Nigeria and Kenya as part of their payroll audits. The biometric payroll data will then be used to effect salary payments. This process is aimed at capturing among others every public sector employee’s national identity, completed biometric data, academic and professional certificates, letters of appointment and current payslip. Through the use of biometrics public service employees and pensioners can be accurately identified and remove ghost workers from the payroll.

11.3 Restructuring Government

While the removal of ghost workers will go a long towards reducing the public service wage bill bolder actions aimed at downsizing the size of government need to be undertaken to make it leaner and more efficient. This downsizing will be motivated and justified in terms of the size of the economy (i.e. low GDP, fiscal revenues) as well as the relatively low population size. Countries such as Sierra Leone and Uganda have taken the bold action of closing about a third of their ministries. In Kazakhstan in 1997, a presidential decree reduced the number of ministries from 21 to 14 and the number of government bodies from 47 to 24 (Lienert and Modi, 1997). However, strong political will and commitment is a necessary ingredient for this kind of reform process. Mechanisms for evaluating public service employee performance should be crafted objectively and inclusively after which arrangements for laying off any nonperforming employees should then be institutionalised.

In addition, the government should expedite the reform of State Owned Enterprises (SOEs) so as to transform them into autonomous and profit-oriented institutions with pro-market regulations and good corporate governance mechanisms. SOEs have been a major drain to the fiscus. There is however, scope and potential for transforming and reforming these key institutions into strong drivers of development in Africa (Chitambara, 2015).

11.4 Pass a Statutory Instrument (SI) Limiting Parastatal and Municipal Wages

In light of the prevailing high and unsustainable salaries in the parastatals sector, government has capped salaries and allowances for managers in SOEs and municipalities at a maximum of US$6,000 per month. However, to ensure compliance with this directive, government should pass a Statutory Instrument (SI) to give legal effect to this noble directive. In addition, wages in the parastatals should be compressed in order to reduce the difference between highest and lowest paid. Lansley and Reed (2013) report a variety of examples where private firms or cooperatives voluntarily implemented top-to-bottom ratios between 6:1 to 19:1. France has imposed a maximum 20:1 pay ratio in public sector firms in 2012, which has put a downward pressure on executive pay in some major private companies as well (Lansley and Reed, 2013). In 2013, in a referendum in Switzerland, 35 percent of the voters voted for legally capping the top-to-bottom pay ratio in all firms at 12:1.

11.5 Alignment of the Public Service salary negotiations with the National Budget Process

The fact that the Public Service wage bill is part of the expenditure component of the national budget, outputs from the salary consultations should inform the national budget expenditures. Thus, there is need to institute a framework to set the time frames for wage setting that allows inputs from consultations to be incorporated in the national budget. This institutionalised framework should be respected by all parties and it ensures transparency during the salary consultations. It further limits distortions in salary determination and keeps wage bill expenditure in line with national income.

11.6 Adopt Integrative Collective Bargaining in both Public and Private Sectors

In order to achieve long term sustainability of wages both in the public and private sectors it is it is critical for the parties to look at all the factors that are relevant to negotiations. There are two sets of factors that allow an “integrative” approach to collective bargaining, namely external or push factors; and internal or permissive factors indicated in Table 15. What is critical in integrative bargaining is that while the external factors are used by workers to push for a favourable outcome, for that outcome to be sustainable, it must be within the limits set by the internal factors, hence their reference as permissive factors, that is, the ability to pay.

When wages are set using the external /push factors only, they may result in inflationary pressures and consequently an unsustainable scenario. A case in point lately was when wages were determined through arbitration without much consideration of the permissive factors thus, resulting in many companies failing to pay these wages. Therefore, integrative collective bargaining limits such challenges especially when it is done in a transparent, socially inclusive (social dialogue) manner.

Table 14: Integrative Bargaining - External Versus Internal Factors

External/Push Factors	***Internal/Permissive Factors***

i. Variables derived from outside the company or sector where negotiations are taking place, but impact on the well-being of the workers or sector. ii. Examples include inflation, PDL, Food Poverty Line (FPL), comparative indicators (e.g. inter-industry and inter-country comparisons), among others. *iii.* They impact on workers' well-being and hence are used to push for a favourable outcome.	iv. Factors derived from the sector or industry or firm where negotiations are taking v. They indicate the ability to pay *vi.* Examples include: productivity, profitability, rate of return on investment, among others.

Source: Table derived from WB Discussion Document: Public Service Employment and Wage Bill Issues and Options Paper, January 2013

11.7 Adopt growth-friendly tax reforms to lower labour costs

High taxes on labour income depress labour supply and can reduce firms' labour demand by driving up the cost of labour (due to high employers' contributions or payroll taxes). Tax reforms can impact economic growth also via private investment and productivity (Arnold et al., 2011; Bouis et al., 2012). A more growth-friendly tax system can be achieved by shifting the tax burden away from direct income toward consumption, immovable property and the environment. Personal and corporate income taxes, as well as social security contributions, are the most distortive taxes as they have sizable adverse effects on labour use, productivity and capital accumulation. Shifting the tax mix away from such taxes and towards recurrent taxes on immovable property (the least distortive to the labour market) and consumption taxes should thus raise living standards (Johansson et al., 2008) and help to lower the labour costs.

Policy Area 2: Addressing the Institutional Framework for Wage Determination

11.8 Resuscitate the National Productivity Institute (NPI) and strengthening the Tripartite Negotiating Forum (TNF)

To ensure that wages are linked to productivity, the government should resuscitate the National Productivity Institute (NPI) as a basis of coming up with national and sectoral scientific benchmarks to guide productivity bargaining. The NPI is a tripartite organisation with representation from the government, employers' and employees' organisations established to promote a productivity culture and consciousness in Zimbabwe. The NPI should develop, disseminate knowledge and experiences in productivity, for promoting consciousness and improvement in productivity, with the objective of strengthening the performance and competitiveness of the economy as well as of improving the working conditions and quality of life. A fully functional NPI should provide a reliable and credible database for decision making including collective bargaining purposes. Other objectives of the NPI should include: to improve the productivity and economic performance of the economy; to promote the development of efficient and internationally competitive Zimbabwean industries; to facilitate adjustment to structural change; and to promote productive employment of resources. For effectiveness and national ownership of the NPI and its outcomes, there is need to inculcate social dialogue and inclusiveness principles.

It is important to strengthen the TNF to make it more inclusive and efficient. This helps to ensure ownership of policies and encourage social cohesion. Government should create a national framework for social dialogue that is inclusive along the lines of NEDLAC in South Africa, or Economic and Social Councils implemented in other countries. Participation in the TNF should be broadened to include all the key stakeholders and coverage should extend beyond labour market issues.

11.9 Reforming the NECs to focus on non-wage issues

It is critical that the role of the NECs be realigned so that they do not just focus on wages but also consider issues of human resources development, productivity and competitiveness (permissive factors) at both the sectoral and national levels. Additionally NECs should:

- Facilitate the development of social plans through social dialogue. Social plans incorporate re-training, re-skilling and re-deployment programmes of retrenched workers. This will ensure employment security and integration of retrenched workers into the mainstream economy. Lessons can be drawn from the South African experiences on social plans.
- Strengthen monitoring and compliance mechanisms of sectoral agreements.
- Design strategies for strengthening value chains and systems in their particular sectors as a way of encouraging and promoting the integration of the informal sector.

11.10 Harmonisation and effective coordination of institutions dealing with wage determination in the Public Sector

The various institutional frameworks for wage consultations and bargaining for various sub-sectors in the civil service are noble and should be maintained since each sub-sector has peculiar needs and interests. However, what is required is to ensure effective coordination between the Ministry of Public Service Labour and Social Welfare, CSC, NJNC and HSBNP. This will limit divergence of views and ensures clarity of purpose. In order to do this, the NJNC and the HSBNP should be merged as the centre voice for workers in the public sector on common issues of basic salaries and allowances since the two institutions have similar bipartite structures. Specific sectoral interests can be dealt with by the sectoral associations.

11.11 Reforming Labour Legislation in the Public Sector

Given the plethora of legislation governing the public sector which are also a source of lack of coordination within the public sector, there is need to harmonise these Acts with the main Labour Act. This process was once spearheaded by the tripartite social partners in 2010 but was abandoned. There is need for the social partners to revisit this process. Harmonisation of these Acts should also inform harmonisation of the institutions dealing with salary negotiations.

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